

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Robert G. Taub, Vice Chairman;  
Mark Acton;  
Tony Hammond; and  
Nanci E. Langley

Periodic Reporting  
(Proposals One Through Five)

Docket No. RM2013-6

NOTICE OF PROPOSED RULEMAKING ON ANALYTICAL  
PRINCIPLES USED IN PERIODIC REPORTING  
(PROPOSALS ONE THROUGH FIVE)

(Issued August 20, 2013)

I. INTRODUCTION

On August 16, 2013, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate an informal rulemaking proceeding to consider changes in four analytical methods for use in periodic reporting.<sup>1</sup> The Petition labels the proposed analytical method changes filed in this docket as Proposals One through Four. In addition, the Petition requests clarification concerning the status of a proposal that the Postal Service filed in response to a Commission directive in Docket No. ACR2012 regarding distribution of settlement costs within certain Global Plus

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<sup>1</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals One through Four), August 16, 2013 (Petition).

Negotiated Service Agreement (NSA) products.<sup>2</sup> This request for clarification will be treated as a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate an informal rulemaking proceeding to consider the changes identified in response to the Commission directive in Docket No. ACR2012, Item 3. *Id.* This request will be labeled as Proposal Five and reviewed as part of this docket.

## II. PROPOSALS

### A. Proposal One. New Formula and Location for Alaska Air Adjustment Factor

The Postal Service proposes a simpler method for calculating the Alaska Air Adjustment Factor. In addition, the Postal Service proposes to implement the Alaska Air Adjustment Factor within the Cost Segment 14 model, rather than with the Cost and Revenue Analysis (CRA) model. It asserts that the current method for calculating the Alaska Air Adjustment Factor is unnecessarily complex, and since the current method was established, postal operational data have improved significantly. Thus, it contends, that the proposal is a more accurate and more easily updateable ratio of highway to air costs. It also believes that implementing the proposed change in the Cost Segment 14 workbook, rather than in the CRA model where it is currently located, would help increase transparency. See Petition at 2-3.

### B. Proposal Two. New Set of Distribution Factors for Alaska Non-Preferential, Alaska Preferential, Hawaii, and Air Taxi Cost Pools in Cost Segment 14

The Postal Service proposes a single set of distribution factors to assign relevant costs from the Non-Preferential Alaska Air, Preferential Alaska Air, Hawaii Air, and Air Taxi cost pools to products. The proposed distribution factors rely on current operations data from Surface Air Management Systems – Alaska regularly collected by the

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<sup>2</sup> *Id.* at 1; see also Docket No. ACR2012, Responses of the United States Postal Service to Commission Requests for Additional Information in FY 2012 Annual Compliance Determination, Item 3, June 26, 2013 (Proposal Five).

Transportation Cost System. The proposal is also designed to remedy an inaccuracy in the distribution of Air Taxi costs. The Postal Service asserts that the primary advantage of the proposal over the existing method is that it uses current data, and therefore computes distribution factors that align with current product lists. See *id.* at 4-7.

C. Proposal Three. New Set of Distribution Factors for Highway and Plant Load Cost Pools in Cost Segment 14

The Postal Service proposes a proxy set of distribution factors to assign relevant costs to products from the Highway Plant Load and Rail Plant Load cost pools in Cost Segment 14. The Postal Service asserts that the product lists have undergone significant changes since Docket No. R2005-1 and the corresponding attributable costs have decreased dramatically. It believes that rather than replicating expensive special studies, it is more sensible to use its proposed proxy set of distribution factors that can be updated quarterly to assign relevant costs to products. See *id.* at 8-10.

D. Proposal Four. Change in Canada Air Transportation Costing Methodology

The Postal Service proposes revising its costing methodology for Air Transportation of outbound products to Canada. This is expected to impact primarily Canada's Air Transportation costs and measured contribution in both the "Booked Version" and "Imputed Version" of reports. Specifically, the proposal benchmarks changes to "Imputed Reports.xls" and "Reports (Booked).xls" to bring the reported International Transportation costs by Product and Country into agreement between the two versions. The proposed changes will preserve the calculation of diversion of Outbound Canada Air Mail to Highway Transportation and eliminate the shift in costs between Canada and the rest of the world during the "Booking" process. In essence, the Postal Service is proposing to change the Imputed Reports so that Canada's combined Air and Air Diverted to Highway costs, together with Air Transportation costs for the rest of the word, are benchmarked to a combination of General Ledger Air and

Surface Purchased Transportation Accounts. Such results would then be used by “Reports (Booked).xls” without further change. The Postal Service asserts that Canada’s International Transportation costs for Outbound Air Mail that is diverted to Highway Transportation, once obscured by International Surface Transportation costs associated with Outbound Surface Mail, have become discernible with the elimination of Outbound Surface Mail Products. Thus, the proposal intends to make use of this information to enhance the International CRA. See *id.* at 11-22.

E. Proposal Five. Change in Methodology for Distributing Settlement Costs for Certain Negotiated Service Agreements

In its Annual Compliance Determination (ACD), the Commission directed the Postal Service to more accurately develop costs or increase the contingency factor to accommodate costs that cannot be modeled for its Global Plus NSA products. See 2012 ACD at 169-70. The Postal Service filed its response to the Commission’s directive on June 26, 2013. See Proposal Five at 8-14. It notes that the Global Plus NSAs at issue relate to mailpieces going to Canada, and, pursuant to agreement, the Canada Post Corporation (CPC) bills the Postal Service for services rendered relating to the total product. Accordingly, the Postal Service asserts that it needs an improved methodology for distributing settlement costs to each NSA contract within a particular product. In its FY 2012 Annual Compliance Report, the Postal Service used a pound distribution key to distribute costs to each NSA within a product. In its response to the ACD directive, the Postal Service proposes changing the pound distribution key methodology for distributing settlement costs to a revenue distribution key methodology in order to distribute costs to each NSA within a product.

The Postal Service observes that the overall product revenues exceed the overall attributable costs and that each Global Plus NSA within the 2B and 2C products should cover costs. However, it also notes that the CPC settlement rates are more complex than a uniform pound rate. For this reason, the Postal Service asserts that a revenue key is better suited for distributing settlement costs to NSA contracts in the Global Plus

2B and 2C products. Accordingly, the Commission will consider the Postal Service's proposed change from a pound distribution key methodology for distributing settlement costs within certain Global Plus NSA products to a revenue distribution key methodology for distributing settlement costs as Proposal Five in this docket.

### III. NOTICE AND COMMENT

The Commission establishes Docket No. RM2013-6 for consideration of matters raised by the Petition and Proposal Five. More information on the Petition and Proposal Five may be accessed via the Commission's website at <http://www.prc.gov>. The Postal Service filed portions of its supporting documentation under seal as part of a non-public annex. Information concerning access to these non-public materials is located in 39 CFR part 3007.

Interested persons may submit comments on the Petition and Proposal Five no later than September 9, 2013. Reply comments are due no later than September 19, 2013. Pursuant to 39 U.S.C. 505, Kenneth E. Richardson is designated as officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

### IV. ORDERING PARAGRAPHS

*It is ordered:*

1. The Commission establishes Docket No. RM2013-6 for consideration of the matters raised by the Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals One through Four), filed August 16, 2013.

2. The Commission will also consider in this docket matters raised by the United States Postal Service in its Responses of the United States Postal Service to Commission Requests for Additional Information in FY 2012 Annual Compliance Determination, Item 3, filed June 26, 2013 (Proposal Five), in this docket.
3. Comments by interested persons in this proceeding are due no later than September 9, 2013. Reply comments are due no later than September 19, 2013.
4. Pursuant to 39 U.S.C. 505, the Commission appoints Kenneth E Richardson to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this docket.
5. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Shoshana M. Grove  
Secretary